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# **EnerBank USA**

## **Community Reinvestment Act Strategic Plan**

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**Proposed by The Home Depot, Inc. As Part of its  
Interagency Notice of Change In Control  
for the Acquisition of EnerBank USA from  
CMS Energy Corporation**

**July 10, 2006 (Updated)**

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## Foreword

The Home Depot has submitted a Notice of Change in Control to the FDIC and Utah Department of Financial Institutions for its acquisition of EnerBank USA from CMS Energy Corporation. As a supplement to the Notice of Change in Control, The Home Depot is submitting this proposed CRA Strategic Plan.

The Home Depot understands that the FDIC and Utah DFI may want to discuss the proposed goals and targets as part of that review. At the appropriate time, The Home Depot and EnerBank will solicit public comment and formally submit this CRA plan to the FDIC and Utah Department of Financial Institutions.

When approved and The Home Depot's acquisition of EnerBank is complete, this proposed CRA Strategic Plan would become EnerBank's plan. EnerBank would implement the CRA Strategic Plan with The Home Depot's support. This proposed CRA Strategic Plan is intended to cover the three-year operating period after the acquisition has been completed.

As stated in its Notice of Change in Control, The Home Depot plans to facilitate growth of EnerBank's existing business model. The Home Depot also proposes to take the same approach with EnerBank's CRA activities. The Home Depot plans to facilitate EnerBank's success in meeting its CRA targets and goals rather than changing them. In prior FDIC reviews, EnerBank achieved "satisfactory ratings." **The Home Depot has committed that EnerBank will achieve "outstanding" ratings after the acquisition is complete.**

## **1.0 Background**

### **1.1 EnerBank Background**

EnerBank USA, headquartered in Salt Lake City, was chartered in June 2002 as a Utah Industrial Bank by the Utah Department of Financial Institutions and the Federal Deposit Insurance Corporation.

EnerBank's only business is funding fixed-rate, unsecured, closed-end, direct consumer installment loans for a broad range of home improvement projects. EnerBank offers several variations of unsecured financing, including installment loans and "same as cash" financing. EnerBank does not solicit business directly from consumers. All of EnerBank's business results from customer referrals by home improvement and remodeling contractors. EnerBank does not have branches or local offices and does not meet with customers face-to-face. All of EnerBank's customer interactions are over the phone, via mail and via e-mail.

EnerBank does not make loans to small businesses or small farms. However, by providing a financing tool that helps remodeling contractors and trade professionals close deals with homeowners, EnerBank has had significant success helping small contractors grow their business.

EnerBank utilizes fixed-rate certificates of deposit as the primary funding mechanism for its loan receivables. EnerBank does not operate a traditional bank lobby and does not maintain cash on its premises.

EnerBank's main offices are in Salt Lake City, Utah. By the end of the third quarter 2006, EnerBank will have completed a relocation of its Jackson, Michigan call center operations to its Salt Lake City headquarters. At that point, the significant majority of its associates will be located in Salt Lake City, and future growth of EnerBank will result in additional employment in Utah. By the end of 2006, EnerBank is projected to have 40 to 45 associates working from its headquarter offices.

EnerBank's board of directors, officers and staff members have significant levels of financial services industry experience.

EnerBank has a strong commitment to fair lending, supported by well-established policies, procedures, employee training, and audit and review procedures. EnerBank formally reviews its lending practices annually as part of the institution's compliance review process.

EnerBank is subject to annual safety and soundness examinations conducted jointly by the FDIC and the Utah DFI, as well as other examinations that evaluate compliance with

applicable consumer protection and fair lending laws and regulations, and performance relating to the Community Reinvestment Act.

A copy of EnerBank's March 31, 2006 call report is included in Exhibit CRA-1.

## 1.2 EnerBank's Existing CRA Plan

EnerBank's board of directors has the overall responsibility for the formation, approval and monitoring of all of EnerBank's CRA activity. This is accomplished through quarterly reports to the board of directors from the board's CRA and Compliance Committee. EnerBank's CRA officer is responsible for the administration of the program, and reports to the Committee, as well as providing relevant reports to the board of directors at each of the regular monthly board meetings. A copy of EnerBank's current CRA policy appears in Exhibit CRA-2.

EnerBank originally operated under a two-year CRA Strategic Plan that was effective from January 2004 to January 2006. A copy of this plan appears in Exhibit CRA-6.

The following summarizes EnerBank's original two-year CRA Strategic Plan:

	Original Two-Year Plan Jan 2004 – Jan 2006
Designated Assessment Area	Salt Lake County, Utah
Primary Focus	Availability of Affordable Housing and Financial Education and Training
<u>"Satisfactory" Performance Targets</u>	
Loans and Investments	0.5% in 2003 of average assets in '03, and 0.75% of average assets in '04.
Grants	\$5,000 in '03 and \$7,500 in '04
Annual Community Service	96 hours each year
<u>"Outstanding" Performance Targets</u>	
Loans and Investments	0.75% in 2003 of average assets in '03, and 1.25% of average assets in '04.
Grants	\$10,000 in '03 and \$15,000 in '04
Annual Community Service	145 hours each year



EnerBank's most recent CRA exam was performed in February, 2005 and resulted in EnerBank earning a "satisfactory" rating.

EnerBank achieved the following in 2005:

- EnerBank's CRA-related loans and investments totaled \$575,000 or approximately 0.75% of its average assets. These loans and investments were primarily in the Utah Housing Corporation's Taxable Municipal Bonds.
- EnerBank made \$7,500 in CRA-related grants.
- EnerBank associates performed 109.5 hours of community service.

Independent of The Home Depot's acquisition, EnerBank created a new three-year CRA Strategic Plan and sought to implement it based on direction and guidance from the FDIC. In May 2006, EnerBank published a public notice seeking comment on this new CRA Strategic Plan. The 30-day public comment period passed and no public comments were received. EnerBank submitted this new CRA Strategic Plan to the FDIC on June 5, 2006. The FDIC has acknowledged receiving the proposed plan and is currently reviewing it. **Although it has not been formally approved, EnerBank is currently operating under the more aggressive performance metrics of the proposed plan.**

A copy of this plan appears in Exhibit CRA-7, a summary of which follows:

	EnerBank's Proposed CRA Strategic Plan
Designated Assessment Area Primary Focus	Salt Lake County, Utah Availability of Affordable Housing and Financial Education and Training
<u>"Satisfactory" Performance Targets</u>	
Loans and Investments	1.00% of average assets in year one, and 1.25% of average assets after that.
Grants	\$12,500 per year
Annual Community Service	96 hours each year
<u>"Outstanding" Performance Targets</u>	
Loans and Investments	1.50% of average assets
Grants	\$15,000 per year
Annual Community Service	145 hours each year

### 1.3 Acquisition By the Home Depot

CMS Energy and The Home Depot have agreed on a mutually beneficial transaction in which The Home Depot will acquire all of the common stock of EnerBank. Completion of the acquisition is contingent on approval of a Change In Control application by the FDIC and the Utah DFI.

The Home Depot's intention is to facilitate growth of EnerBank's business model with no change to EnerBank's existing business focus or processes. Specifically, as this relates to the EnerBank's Community Reinvestment Act Strategic Plan:

- The Home Depot intends to retain EnerBank's existing management team. EnerBank's management team understands the community and its strengths, challenges, needs and opportunities. The management team also has successful relationships with various community groups and has made personal as well as professional commitments to community service.
- Supported by its board of directors, EnerBank's management team will continue to assess community development and credit needs of the community, and will continue to develop CRA strategic plan goals for lending, investment, grants and service activities. EnerBank's CRA policy (as it appears in Exhibit CRA-2) would remain unchanged.
- EnerBank and its employees will continue to implement the CRA Strategic Plan. EnerBank will continue to independently make investments and grants as it operates at "arms-length" from its parent. EnerBank employees will generate community service hours.
- The Home Depot has reviewed EnerBank's proposed three-year CRA Strategic Plan and agrees with EnerBank's assessment and targets. The Home Depot believes that the Bank's assessment area is appropriately delineated. The Home Depot also believes that EnerBank's investment and grant targets are appropriate for the size of EnerBank's business and "stand-alone" financial capabilities. EnerBank's proposed community service hours are consistent with the size of its existing Salt Lake City staff. (With the relocation of the bank's call center to Utah, there would be more bank employees capable of providing more community service hours. However, because that transition is currently in progress, it is difficult to determine the exact impact of this office relocation).

**The Home Depot has reviewed the EnerBank's proposed CRA Strategic Plan and believes that as a subsidiary of The Home Depot, the bank would achieve "outstanding" ratings. This performance is reflected in the three-year business plan**

projections included in the Notice of Change in Control submitted to the FDIC and Utah DFI on May 8, 2006.

Community service is an integral part of The Home Depot's corporate values. A summary of several of its important community service programs appears in Exhibit CRA-5.

Specifically, within the State of Utah, during 2004 and 2005, The Home Depot made over \$250,000 in charitable gifts supporting organizations like KaBoom!, Safe Kids Coalition, Special Olympics and Safe Harbor.

The following are some examples of The Home Depot's community service efforts across the nation:

- During just the month of September 2005, working with 29 other organizations, The Home Depot's associates delivered 850,000 hours of community service across North America. (This included a substantial number of community service hours in the state of Utah).
- During 2005, The Home Depot's Community Impact Grants program invested more than \$1.3 million in communities through North America.
- In 2005, The Home Depot donated more than \$9 million in cash and materials to hurricane relief and rebuilding efforts in the United States and Mexico. The Home Depot also formed a three-year, \$6.6 million partnership with the Red Cross to educate 1 million people on hurricane and disaster preparedness.
- The Home Depot Foundation provides grants for constructing, rehabilitating and financing affordable and healthy housing for low- to moderate-income families.
- The Home Depot sponsors construction, refurbishment and maintenance of public play spaces. For example, in July 2005, The Home Depot announced a three year \$25 million partnership with KaBOOM! to create 1,000 community play paces in 1,000 days.
- The Home Depot actively supports the U.S. military and its families. In 2003, The Home Depot launched Operation Homefront and donated 1 million service hours and \$1 million to help make home repairs for families with deployed military personnel. In 2004, The Home Depot donated \$1 million of tools and materials to troupes in Iraq.

The Home Depot has been recognized for this community service. For example, in 2005, The Home Depot received the Award for Excellence in Workplace Volunteer Programs from the Points of Light Foundation.

## **2.0 Proposed Three-Year CRA Strategic Plan**

### **2.1 Development of the Plan**

This plan is based on EnerBank's proposed three-year CRA Strategic plan that has been submitted to the FDIC. EnerBank's management took the following steps to develop the strategic plan:

- They evaluated the bank, including the current business model, relevant financial information, business strategy, products, performance context and competitive environment.
- They considered assessment area demographic information and economic conditions.
- They assessed the community development and credit needs of the community and, to a certain extent, the State of Utah. During this phase of development the management team evaluated various resource materials and had discussions with representatives of community development agencies.
- They developed the strategic plan goals for the bank's lending, investment and service activities. The management team chose goals that were responsive to the needs of the community and appropriate within the Bank's performance context.

### **2.2 Assessment Area and Analysis**

**EnerBank's management team established Salt Lake County as the assessment area for its CRA Strategic Plan.**

Per the U.S. Census Bureau's "State and County QuickFacts:"

- Population Salt Lake County's population in 2005 was estimated at 948,172 or 38.4% of Utah's total state population. Salt Lake City County's growth rate was estimated at 5.5% compared to 10.6% for Utah.
- Housing In 2004, there were 331,749 housing units in Salt Lake County or 39% of all housing units in Utah. In 2000, Salt Lake County's home ownership rate was 69% compared to 71.5% for Utah. Nearly 28% of Salt Lake County housing units were multi-unit structures compared to 22% for the state.



- Education In 2000, 86.8% of Salt Lake County's population had a high school education, and 27.4% had a college degree.

U.S. Census Bureau statistics for Salt Lake County appear in Exhibit CRA-4.

Quoting from Salt Lake County's web-site, [www.econdev.slco.org](http://www.econdev.slco.org):

"Salt Lake County is the most populous county in the state, with a population of 902,777 in 2000. It is also the most dense county, with 1,224.3 people per square mile. The county's average annual growth rate from 1990 to 2000 has been 2.2%, below the state average of 2.7%. Salt Lake County's average household size is 3.00 people per household compared to the state average of 3.13 people per household (Census 2000). The median age in the county is 28.9, which is higher than the state median age of 27.1 (Census 2000). Salt Lake County is expected to grow to a population of 1,383,907 by the year 2030.

Total personal income for Salt Lake County is \$23.3 billion (1999). Total personal income for the state is \$49.6 billion. Current per capita income for Salt Lake County is \$28,100 (2000), which ranks 2nd highest among Utah counties. This per capita income also represents 117.5% of the state average (\$23,276). The total nonagricultural payroll wages in Salt Lake County in 2000 were \$17.4 billion.

Salt Lake County's economy has achieved an orderly transition from robust growth to maintenance growth, but it is still thriving. Most industries are holding their own. Unemployment is stable and low. Moreover, wage increases continue to outpace inflation."

Salt Lake County's projections for county growth appear in Exhibit CRA-4.

Salt Lake County MSA Census Tract information also appears in Exhibit CRA-4.

### 2.3 EnerBank's Needs Assessment

EnerBank has had discussions with the following representatives of community development organizations to identify current needs in the Salt Lake County assessment area:

- Martha Wunderli, Network Coordinator, Utah Individual Development Account Network
- Julie Mayhew, Development Officer, Lowell Bennion Community Service Center
- Kayleen Simmons, Executive Director, People Helping People
- Darin Brush, Executive Director, Community Development Corporation
- Sister Suzanne Brennan, Executive Director, Holy Cross Ministries
- Jackie Skibine, Director of Development, ArtSpace
- Sherrie Overbee, Director, Globuous Financial Relief
- Phil Coffield, Executive Director, Junior Achievement
- Kathryn Brussard, Director, Catholic Community Center
- Dr. Ramon Johnson, Director, Education CRA Fund
- Calvin Boardman, Faculty Member, University of Utah

EnerBank's management also used the following resources to establish current needs in

the assessment area:

- The 2005 Economic Report to the Governor
- The Office of Business and Economic Development
- Data from the US Census Bureau

## 2.4 Plan Goals

Based on its research, EnerBank's management team believes that the three most critical needs in the assessment area that it can impact are:

- Affordable Housing There is a need for affordable, accessible, quality housing in Salt Lake County including short-term shelter to stabilize transient families, transitional housing, and assistance in locating affordable housing to move individuals and families into self-sufficiency.
- Financial Education There is a need in the community for a variety of educational programs, including life skills training encompassing budgeting and basic personal finance, fundamentals of credit, home ownership, and job skills training.
- Employment Opportunities There is a need to help small businesses create meaningful employment opportunities within the community.

The goal of EnerBank's CRA Strategic Plan is to make a positive impact in these three areas. To do that, EnerBank would:

- Develop and grow long-term, informal partnerships with local community-based organizations who can directly address these needs. Examples of such community groups are included in Exhibit CRA-3.
- Make community development grants in support of relevant programs.
- Make qualified loans and investments that have as their primary purpose community development. This includes continued purchase of Utah Housing Corporation Taxable Municipal Bonds.
- Perform community service activities that support the community.
- Make available unsecured home improvement loans to low- and moderate-income borrowers who reside in Salt Lake County. (These loans will not be identified by census tracts, but by median household income as compared to latest Census Bureau statistics. Low-income borrowers are identified as earning less than 50% of the median household income per year. Moderate-income

borrowers are identified as earning between 50% and 80% of the median household income per year).

- Provide lending services and provide training to small businesses within the assessment area, to help them grow their business and increase their employment. EnerBank may also develop partnerships with contractor associations or foundations who work with these types of small businesses.

## 2.5 Performance Context – Constraints Impacting the Plan

In establishing appropriate targets, EnerBank's management team identified the following constraints:

- As a "stand-alone" financial entity that acts at "arms-length" from its parent, EnerBank's has modest financial capabilities. EnerBank just reached break-even and achieved profitability in 2005. Per the financial projections provided in its Notice of Change in Control, The Home Depot forecasts that EnerBank's business will continue to grow during the three years after its acquisition. As EnerBank's business grows, it will continue to increase its investments and grants.
- EnerBank's relatively small Salt Lake City employee headcount limits its capability to provide community service hours. At the time that The Home Depot reached agreement with CMS Energy to acquire the business, EnerBank had only 9 staff members in its Salt Lake City office. Over time, as EnerBank relocates its call center operations to its Salt Lake City headquarters and business volume grows, its Salt Lake City employee base will grow. However, given the efficiency of EnerBank's business model, total employee count will remain low – projected to total approximately 75 employees by the end of the third year of operation.
- EnerBank's sole focus and capabilities are for issuing unsecured loans for home improvement projects. EnerBank does not issue primary mortgages and does not make loans to small businesses and small farms. This focus limits EnerBank's ability to impact the assessment area. For example, EnerBank can not issue mortgages to low- and moderate-income individuals.
- EnerBank must compete to serve community needs with an increasing number of financial institutions located in Salt Lake County, including commercial banks, credit unions, savings and loan associations and other Industrial Banks. The Industrial Banks are perhaps EnerBank's most direct competition in terms of CRA activities, some of which may have CRA Strategic Plans focused on the similar community needs in the same assessment area.



## 2.6 Plan Targets and Alternative Assessment Method

EnerBank's management established targets to meet its CRA Strategic Plan objectives. The targets reflect the needs in grants, investments, and services that can be achieved and are responsive to community needs.

The following are the CRA plan targets for the first three years after acquisition of EnerBank by The Home Depot:

	CRA Strategic Plan Targets
Designated Assessment Area	Salt Lake County, Utah
Primary Focus	<ul style="list-style-type: none"><li>• Availability of Affordable Housing</li><li>• Financial Education and Training</li><li>• Employment Opportunities</li></ul>
<u>"Satisfactory" Performance Targets</u>	
Loans and Investments	1.00% of average assets in year one, and 1.25% of average assets after that.
Grants	\$12,500 per year
Annual Community Service	96 hours each year
<u>"Outstanding" Performance Targets</u>	
Loans and Investments	1.50% of average assets
Grants	\$15,000 in Year 1, \$18,000 in Year 2, and \$20,000 in Year 3
Annual Community Service	145 hours in Year 1, 160 hours in Year 2, and 175 hours in Year 3

**The Home Depot has committed that EnerBank will achieve "outstanding" ratings after the acquisition is complete.** As such, EnerBank would not elect to be evaluated under another assessment method if it fails to substantially meet the strategic plan goals for a "satisfactory" rating.

## 2.7 Peer Group Study

EnerBank's management attempted to find Industrial Banks located in Salt Lake County with similar business strategies and of a similar size to perform a peer group study



comparing performance goals and standards. Although they are substantially larger and serve different target markets, Advanta Bank Corporation and BMW Bank of North America, Inc. were selected as EnerBank's closest peers.

	EnerBank USA	Advanta Bank Corporation	BMW Bank of North America, Inc.
Asset Size (\$000) as of 3/31/2006	91,311	1,552,768	1,863,445
Net Income (\$000) 1Q2006	198	26,875	4,796
Full-Time Employees	35	805	32
Date of Deposit Insurance	2002	1991	1999
<u>"Satisfactory" Performance Targets</u>			
Loans and Investments	1.00% of average assets in year one, and 1.25% of average assets after that	1.25% of average assets	1.00% of average assets
Grants	\$12,500 per year	\$85,000	n/a
Annual Community Service	96 hours each year	120-199 hours	120 hours
<u>"Outstanding" Performance Targets</u>			
Loans and Investments	1.50% of average assets	2.25% of average assets	1.5% of average assets
Grants	\$15,000 in Year 1, \$18,000 in Year 2, and \$20,000 in Year 3	\$90,000	n/a
Annual Community Service	145 hours in Year 1, 160 hours in Year 2, and 175 hours in Year 3	200+ hours	180 hours

## 2.8 Effective Date and Term of the Plan

This proposed CRA Strategic Plan:

- Would start when The Home Depot's acquisition of EnerBank is complete and the plan is approved by the FDIC and the Utah DFI.
- Is intended to be effective for the first three years of operation after the acquisition is complete.

## 2.9 Solicitation of Public Comments and Submission to the FDIC

The Home Depot has submitted this CRA Strategic plan for the FDIC and the Utah DFI to examine as part of their review of The Home Depot's Notice of Change in Control for EnerBank.

At the appropriate time, The Home Depot and EnerBank will solicit public comment on this plan. The Home Depot and EnerBank anticipate publishing a public notice in two newspapers of general circulation in the Salt Lake County assessment area (most likely the Salt Lake Tribune and the Deseret News). Copies of this CRA Strategic Plan will be offered to the public at no cost, and will be made available for review by the public at EnerBank's headquarters office at no cost. A proof of publication for the notice will be provided to the FDIC. After public comments are received, this CRA Strategic Plan will be formally submitted to the FDIC.